

Message Text

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PAGE 01 ABU DH 01495 251011Z
ACTION NEA-11

INFO OCT-01 EUR-12 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-11 OES-07
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 NRC-05 SSM-03
/147 W

-----111488 251803Z /46

R 250913Z MAY 78
FM AMEMBASSY ABU DHABI
TO SECSTATE WASHDC 7886
INFO AMEMBASSY DOHA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY MANAMA ZQYWE
AMEMBASSY MUSCAT
AMEMBASSY TEHRAN

C O N F I D E N T I A L ABU DHABI 1495

E.O. 11652: GDS
TAGS: ENRG, EINV, TC, IR, US
SUBJ: TAX AND ROYALTY PROBLEM FOR CRESCENT PETROLEUM

REF: ABU DHABI 1490

1. CRESCENT MANAGING DIRECTOR HAMID JAAFAR PHONED AMBASSADOR MAY 25 TO REPORT HE HAD PREVIOUS EVENING MET WITH RULER OF SHARJAH TO DELIVER MAY 15 LETTER FROM SHAREHOLDERS. MEETING WAS BRIEF AND SHAIKH SULTAN DID NOT READ LETTER, STATING HE KNEW ALREADY OF ITS CONTENTS. RULER DID NOT COMMENT ON ARBITRATION BUT SAID HE HAD DONE HIS BEST TO FIND A COMPROMISE, PARTICULARLY FOCUSSED ON HIS OFFER TO TRY AND CHANGE RETROACTIVITY TO JUNE 1977. HE MENTIONED THE POSSIBILITY OF CRESCENT SENDING SOME REPS TO SHARJAH TO DISCUSS PROBLEM WITH NIOC BUT THEN DID NOT FOLLOW UP IDEA.

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2. JAAFAR SAID HE REVIEWED AGAIN FACT THAT WHEN NEGOTIATIONS STARTED LAST SUMMER, SHAIKH SULTAN HAD PROPOSED LOWER TAX AND ROYALTY OF 65/14.5 PERCENT WHICH COMPANY HAD SAID IT WILLING ACCEPT PROVIDED NO RETROACTIVITY. WHEN RULER SUBSEQUENTLY HAD RAISED THIS TO 77/14.5, COMPANY WILLING ACCEPT BUT BEGINING ONLY WITH JAN. 1, 1978. WHEN JAAFAR VOLUNTEERED TO DO WHAT HE COULD

TO BRIDGE COMMUNICATION GAP THAT HAD ARISEN OVER OFFERS AND COUNTER OFFERS, SHAIKH SULTAN THOUGHT THIS MIGHT BE GOOD IDEA. JAAFAR HAS NOW SENT MESSAGE TO SHAREHOLDERS ASKING THEM TO COME BACK WITH SHAIKH SULTAN'S LAST PROPOSAL AND MODIFY IT SO THAT IT WILL BE ACCEPTABLE. JAAFAR ALSO PLANS TO TELL SHAIKH SULTAN SEPARATELY THAT THESE DISCUSSIONS TO TRY AND CLOSE COXXUNICATION GAP WILL NOT HOLD UP PROCEEDINGS FOR INTERNATIONAL ARBITRATION. IF NO ARBITRATOR IS NAMED BY SHARJAH ON MAY 28, CRESCENT WILL THEN GO TO THE PRESIDENT OF THE ICJ TO DESIGNATE ARB TRATOR FOR SHARJAH AS CALLED FOR IN ARTICLE 34 B OF 1969 AGREEMENT.

3. JAAFAR ALSO REPORTED THAT WILDCAT WELL KNOWN AS SOUTH MUBBARAQ NO. 1 HAS BEEN FULLY TESTED AND RESULTS ARE COMPLETELY NEGATIVE. RULER OF SHARJAH HAD HOPED WILDCAT COULD FIND NEW

FIELD. A FURTHER PROBLEM IS THAT CASING OF ONE OF PRODUCING WELLS AT EXISTING MUBARRAQ FIELD HAS COLLAPSED AGAIN CAUSING PRODUCTION TO DROP TO 20,000 BPD. WITH ISSUE OF RETROACTIVITY UNRESOLVED, CRESCENTSHAREHOLDERS INCREASINGLY RELUCTANT PUT ANY MORE MONEY INTO OPERATION OF MUBARRAQ FIELD.
DICKMAN

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